



# California Travel & Tourism Outlook

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October 2011



# Forecast Overview

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- Visits to California will surpass their the pre-recession peak in 2011:
  - Visitor volumes rose across all measured segments with particular strength in international markets.
  - As expected, overnight travel is outpacing day travel as lodging demand recovers.
  - Growth in Pacific Northwest visitors has supported strong growth in domestic trips in 2011.
- Visitor growth continues to rebound in 2011 despite a weak economic environment, negative shocks like the earthquakes in Japan and New Zealand and the gas price spike of late Spring.
- Mixed economic outlook puts a high level of uncertainty in the forecast. Will Europe be able to solve its debt crisis? Will firms begin to invest and hire? Will the deficit reduction panel find a solution? There are many questions in the economic outlook.

# California Travel Forecast Summary

California Tourism Summary							
(Annual % change)							
	2009	2010	2011	2012	2013	2014	2015
<b>Total Visits</b>	-6.8%	5.9%	3.8%	1.9%	2.1%	2.3%	2.6%
<b>Domestic</b>							
Total Visits	-6.6%	5.6%	3.5%	1.6%	1.9%	2.1%	2.2%
Leisure Visits	-7.0%	4.9%	3.9%	1.5%	1.8%	2.2%	2.3%
<b>International</b>							
<b>Total</b>							
% change	-9.1%	9.0%	6.9%	4.7%	4.6%	5.3%	5.5%
Overseas	-13.1%	18.2%	9.0%	5.5%	4.7%	5.2%	5.3%
Mexico	-7.3%	1.8%	5.2%	4.2%	4.9%	5.7%	5.9%
Canada	-1.9%	10.0%	6.4%	3.9%	3.4%	4.2%	4.8%
<b>Leisure</b>							
% change	-3.4%	10.6%	6.9%	4.8%	4.7%	5.3%	5.5%
Overseas	0.2%	18.2%	9.2%	5.5%	5.0%	5.2%	5.2%
Mexico	-7.3%	5.3%	5.2%	4.4%	4.8%	5.7%	5.9%
Canada	3.3%	10.0%	6.4%	4.1%	3.3%	4.0%	4.7%
<b>Total Expenditures (\$ billions)</b>							
	88.5	95.1	104.6	109.9	115.5	121.8	128.0
% change	-9.2%	7.5%	10.0%	5.1%	5.1%	5.4%	5.1%
<b>Domestic</b>							
	72.7	77.0	84.6	88.3	92.3	97.1	101.7
% change	-8.1%	5.8%	9.9%	4.3%	4.6%	5.1%	4.8%
<b>International</b>							
	15.8	18.1	20.0	21.7	23.2	24.7	26.3
% change	-13.9%	15.0%	10.4%	8.2%	6.9%	6.6%	6.5%

Source: Tourism Economics. Historical sources: TNS Global (domestic); CIC Research, OTTI (international); Dean Runyan (expenditures)

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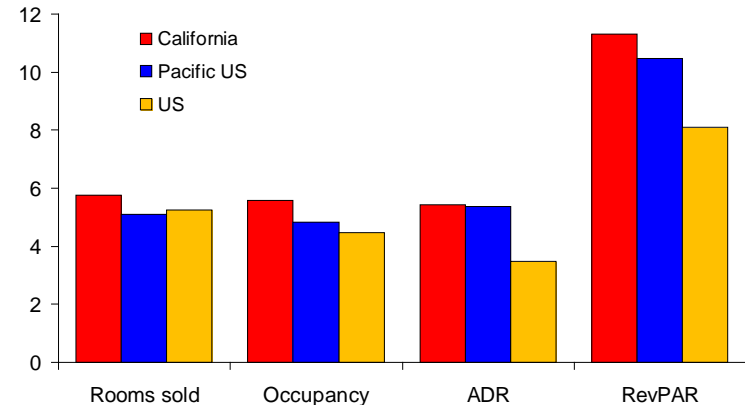
# California Travel Outlook **SUMMARY**

# Recent Performance: Strong 2010 AND 2011 so far...

- Visits continued to rebound in the first half of 2011. With strong hotel performance and international arrivals, visits to California are forecast to grow 3.8% in 2011.
- The hotel sector outperformed the industry as a whole. Room demand grew 5.8% through August and prices have started to rise from recession levels. This has led RevPAR to grow by more than 11% over the first 8 months of the year.
- International airport arrivals, buoyed by growth of over 7% during April and May, remained strong. However, domestic air arrivals, after growing 2% in the first half of the year, fell in July.
- As expected, demand from Asian markets has been robust. Surprising growth has been experienced from key European markets.

## Hotel Performance

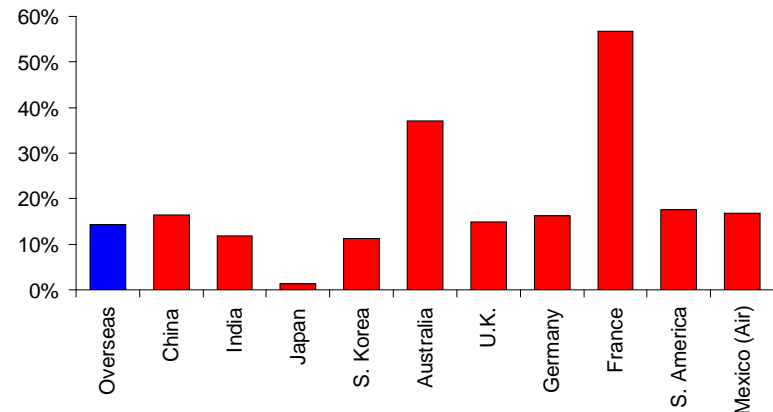
% change year ago, Jan-Aug 2011



Source : STR Global

## International Arrivals in California

% change year to date, 2011 (preliminary)



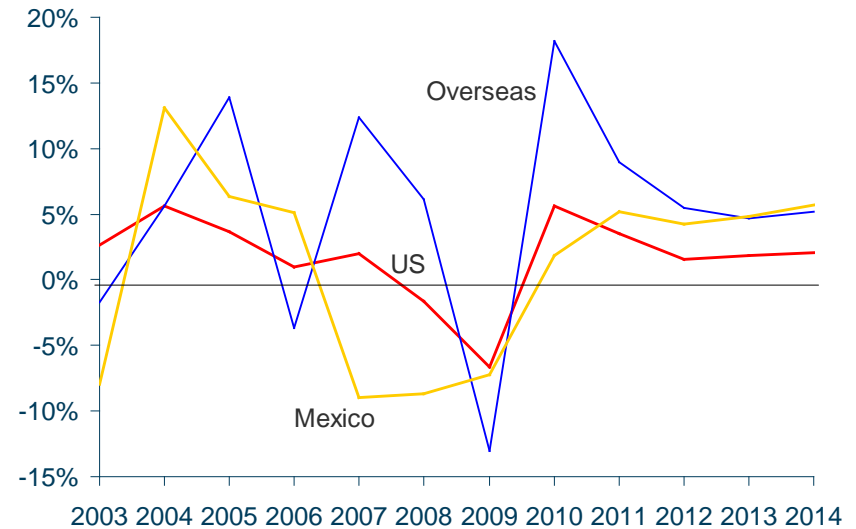
Source : Port of Entry data

# ...pulls some growth forward from 2012

- Visits have rebounded with 5.9% growth in 2010 with 3.8% in 2011.
- Domestic visits to California grew a revised 5.6% in 2010 and are forecast to grow 3.5% in 2011.
- With this strong growth, 2011 visits will surpass the pre-recession peak of 2007, a year earlier than previously forecast.
- As a result, growth is expected to moderate in 2012 as the “rebound” part of the recovery ends and the economy faces ongoing labor and housing market headwinds.
- International arrivals, fueled by Asia, will continue to outperform domestic travel over the near term.

## CA Total Visits

annual % growth



Source : Tourism Economics, OTTI, CIC Research, TNS

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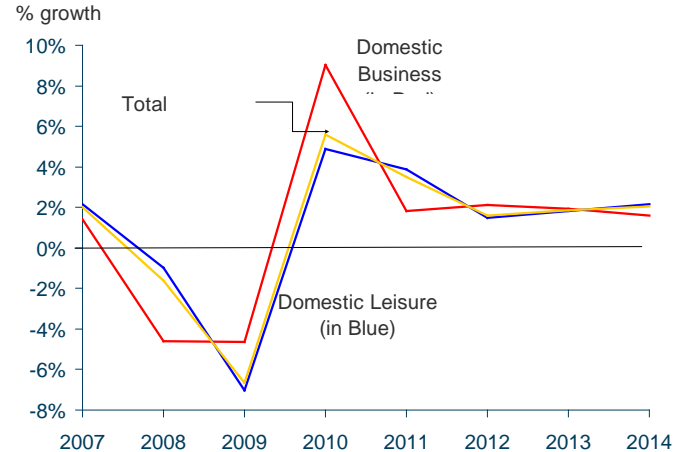
California Travel Outlook

# DOMESTIC FORECAST

# Business and Leisure Travel

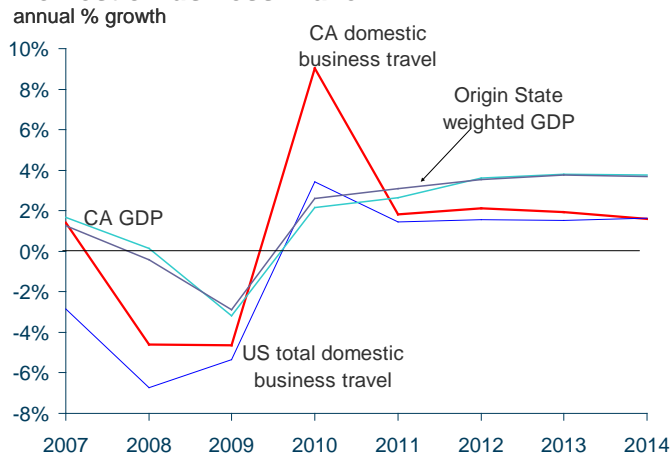
- The hesitation of businesses to spend has subdued business travel in 2011. CA business travel growth is forecast to underperform leisure, mirroring the overall US travel market.
- With a larger decline during the recession, CA leisure visit growth will continue to outperform the US leisure growth in 2011 as it catches up to pre-recession levels.

**CA Domestic Business and Leisure Visits**



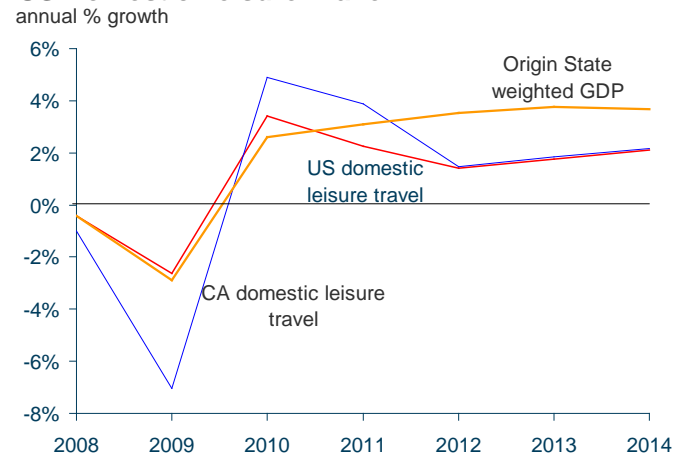
Source : Tourism Economics

**Domestic Business Travel**



Source : Tourism Economics

**US Domestic Leisure Travel**



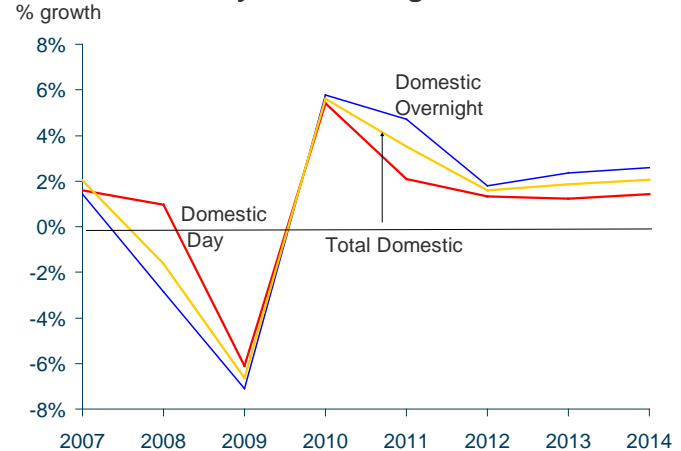
Source : Tourism Economics



# Day and Overnight Travel

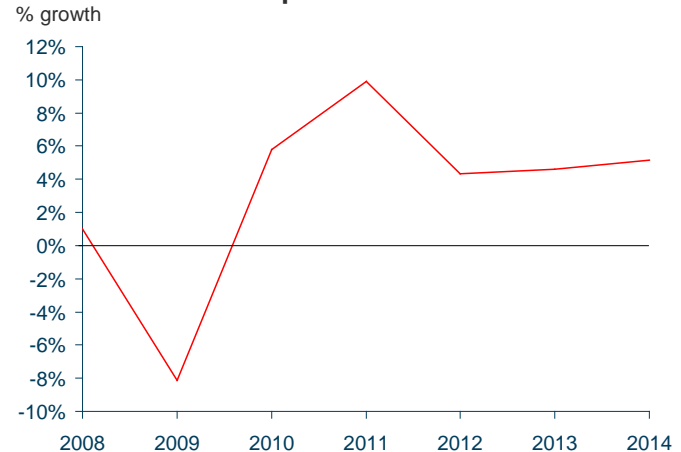
- Domestic overnight travel is outperforming the overall travel market in 2011.
- The relative gain in overnight visits vs. day visits and rising travel prices in the lodging and transportation sectors helped boost visitor expenditures 9.7%.
- The rise in travel prices, along with economic uncertainty (both domestic and international), will temper travel demand growth in 2012.
- An expected, the industry is regaining pricing power, especially in the lodging sector. Continued limits on new capacity will help travel businesses hold on to the price gains.

**CA Domestic Day and Overnight Visits**



Source : Tourism Economics

**Domestic Visitor Expenditures**



Source : Dean Runyan, Tourism Economics

# Domestic Forecast Growth

Annual Person Trips to California							
(Annual % change)							
	2009	2010	2011	2012	2013	2014	2015
<b>Domestic</b>							
<b>Total</b>	-6.6%	5.6%	3.5%	1.6%	1.9%	2.1%	2.3%
<b>Business</b>	-4.6%	9.0%	1.8%	2.1%	1.9%	1.6%	1.9%
<b>Leisure</b>	-7.0%	4.9%	3.9%	1.5%	1.8%	2.2%	2.3%
<b>Day</b>	-6.1%	5.4%	2.1%	1.3%	1.2%	1.4%	2.2%
<b>Overnight</b>	-7.1%	5.8%	4.7%	1.8%	2.4%	2.6%	2.3%

Source: Tourism Economics. Historical sources: TNS Global (domestic); CIC Research, OTTI (international); Dean Runyan, CIC Research (expenditures)

Domestic Person Trips to California							
(Annual % change)							
	2009	2010	2011	2012	2013	2014	2015
<b>Drive</b>	-6.6%	7.1%	4.4%	2.1%	2.4%	2.5%	2.6%
<b>Fly</b>	-8.0%	0.8%	1.2%	0.7%	0.8%	1.7%	2.2%
<b>Gateway</b>	-4.7%	6.4%	2.8%	2.6%	1.9%	2.1%	1.9%
<b>Non-Gateway</b>	-10.8%	3.4%	4.1%	1.8%	2.1%	2.1%	2.3%
<b>Paid Accommodation</b>	-4.1%	6.6%	5.2%	1.2%	2.4%	2.6%	2.5%
<b>Non-paid</b>	-11.6%	4.4%	4.0%	2.8%	2.4%	2.6%	1.9%

Source: Tourism Economics. Historical sources: TNS Global, STR

**Gateway** is defined as visitation to one or more of the following metropolitan areas: San Diego, Anaheim-Orange County, Los Angeles, San Francisco Bay Area; **Non-Gateway** is defined as visitation to one or more non-Gateway destinations.

# Domestic Leisure Forecast Growth by Market

Annual Domestic Leisure Trips to California							
(Annual % change)							
	2009	2010	2011	2012	2013	2014	2015
<b>Total</b>	-7.0%	4.9%	3.9%	1.5%	1.8%	2.2%	2.3%
<b>California</b>	-5.2%	6.8%	3.7%	1.5%	1.9%	1.9%	2.0%
<b>Primary Markets</b>	-11.2%	2.3%	4.6%	1.3%	1.9%	3.3%	3.7%
Arizona	-11.0%	9.0%	6.0%	1.9%	2.2%	3.1%	3.2%
Nevada	-16.6%	-0.9%	1.4%	0.7%	0.7%	3.2%	4.3%
Oregon	0.2%	-0.2%	7.6%	0.2%	1.9%	3.7%	3.9%
Washington	-25.9%	-1.1%	5.8%	1.9%	2.7%	3.6%	3.9%
Utah	-8.1%	-4.9%	0.4%	0.7%	2.1%	3.7%	3.7%
Colorado	12.4%	3.8%	5.1%	1.8%	2.3%	3.2%	3.6%
<b>Opportunity Markets</b>	6.8%	1.6%	3.5%	1.6%	2.1%	3.0%	3.5%
Texas	8.2%	2.0%	4.4%	2.2%	2.7%	3.7%	4.2%
New York	15.1%	1.8%	1.2%	1.1%	1.7%	2.4%	3.4%
Illinois	-4.5%	0.7%	5.1%	1.3%	1.6%	2.5%	2.5%
<b>Rest of US</b>	-22.9%	-8.6%	4.7%	1.4%	1.4%	2.9%	2.8%

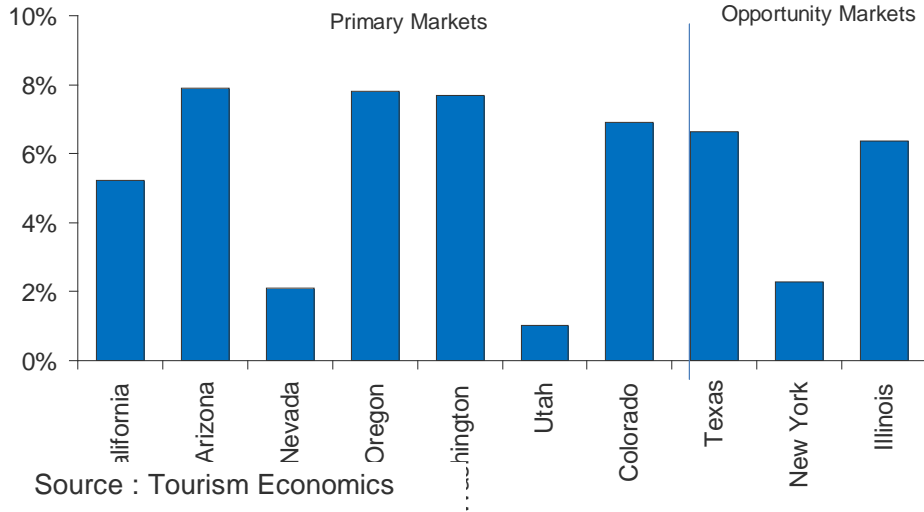
Source: Tourism Economics. Historical sources: TNS Global

**Note on volatility of historical data and treatment in forecast:** Due to smaller sample sizes and relatively smaller visitor volumes in absolute terms, the historical data of origin markets tends to be more volatile than total visitor volumes.

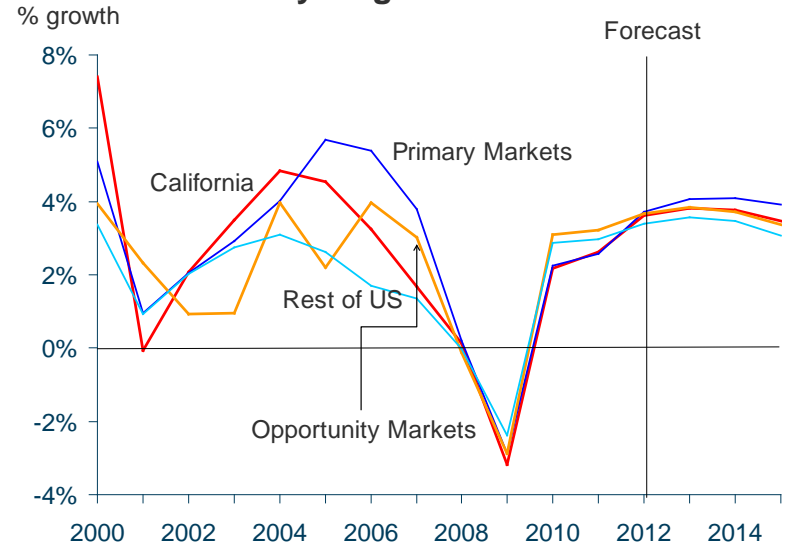
# Domestic market comparisons

## Projected trip growth by source market

Cumulative growth, 2011-2012



## Real State GDP by Origin Market



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California Travel Outlook

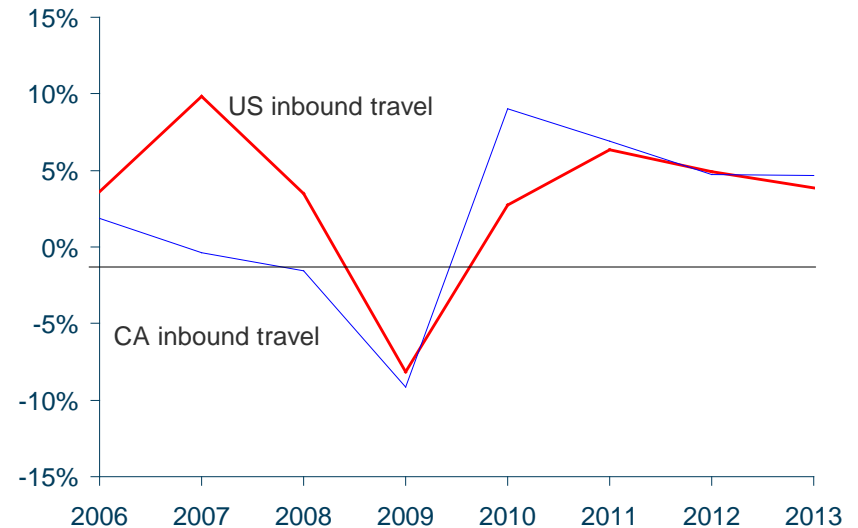
# **INTERNATIONAL FORECAST**

# Asia rebounds, earthquake impact 2011

- Strong overseas arrivals in the first half of 2011 show California to be outperforming the US in international markets.
- Continued strength in China along with higher than expected growth from Europe are driving growth in international arrivals to California in 2011. As expected, visits from Japan, while positive, remain weak.
- California's relatively high exposure to Asian markets will allow California to continue to outperform that of the US in international markets.

## CA International Inbound Travel

annual % growth



Source : Tourism Economics

# Inbound Leisure Forecast Growth

Annual International Leisure Trips to California							
(Annual % change)							
	2009	2010	2011	2012	2013	2014	2015
<b>Total</b>	-3.4%	10.6%	6.9%	4.8%	4.7%	5.3%	5.5%
<b>China</b>	21.3%	49.1%	13.8%	7.7%	11.6%	13.7%	14.6%
<b>India</b>	16.9%	17.2%	10.1%	7.6%	7.7%	7.3%	8.5%
<b>Japan</b>	-19.4%	19.3%	2.3%	3.5%	5.8%	5.6%	5.5%
<b>South Korea</b>	16.4%	40.8%	7.6%	6.2%	6.1%	6.4%	5.5%
<b>Australia</b>	0.4%	33.2%	15.6%	4.0%	2.7%	2.5%	2.9%
<b>United Kingdom</b>	-9.0%	3.0%	7.9%	4.7%	3.9%	3.6%	3.8%
<b>Germany</b>	-5.2%	9.3%	9.2%	3.9%	3.6%	3.1%	2.8%
<b>France</b>	32.4%	38.8%	30.6%	5.9%	3.1%	3.7%	4.3%
<b>Scandanavia</b>	-2.8%	21.3%	4.7%	4.4%	3.7%	4.1%	3.6%
<b>South America</b>	22.4%	20.2%	11.8%	8.0%	5.2%	5.4%	6.0%
<b>Canada</b>	3.3%	10.0%	6.4%	4.1%	3.3%	4.0%	4.7%
<b>Mexico</b>	-7.3%	5.3%	5.2%	4.4%	4.8%	5.7%	5.9%
<b>Rest of World</b>	-0.9%	11.8%	3.1%	6.2%	6.0%	6.0%	5.6%

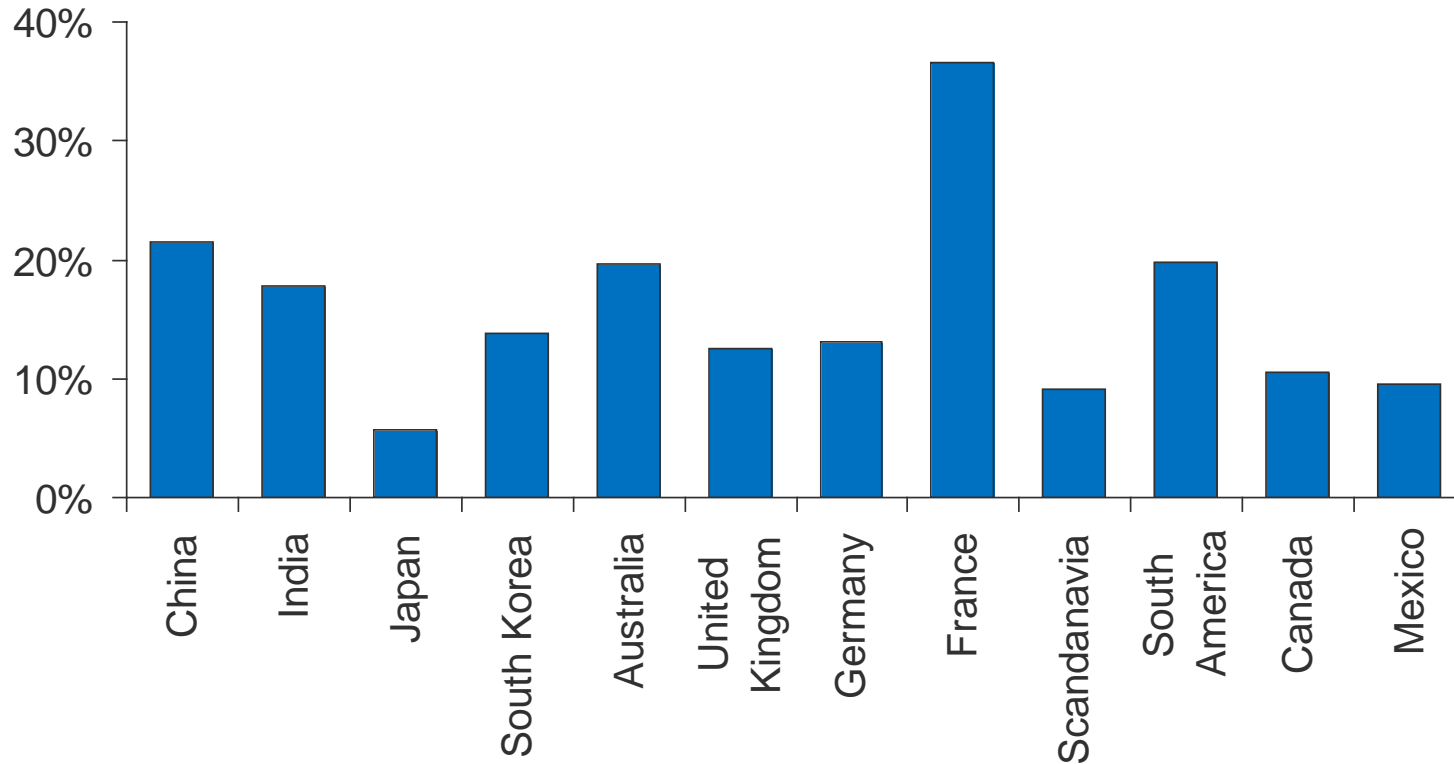
Source: Tourism Economics. Historical sources: CIC Research, OTTI

**Note on volatility of historical data and treatment in forecast:** Due to smaller sample sizes and relatively smaller visitor volumes in absolute terms, the historical data of origin markets tends to be more volatile than total visitor volumes.

# International market comparisons

## Projected international leisure visits by market

Cumulative growth, 2011-2012



Source : Tourism Economics



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California Travel Outlook

# VISITOR SPENDING

# Spending rebounds on pricing and trip type

- Visitor spending is being driven by a strong rebound in overnight visits and higher travel prices.
- Lodging prices should continue their upward trend in the near term as hoteliers respond to demand.
- Prices at the pump drove significantly higher domestic spending in 2011. Moderating gas prices in 2012 will limit spending growth but will also benefit disposable income – having a net positive effect.

**CA Visitor Expenditures**



Source : Dean Runyan, Tourism Economics

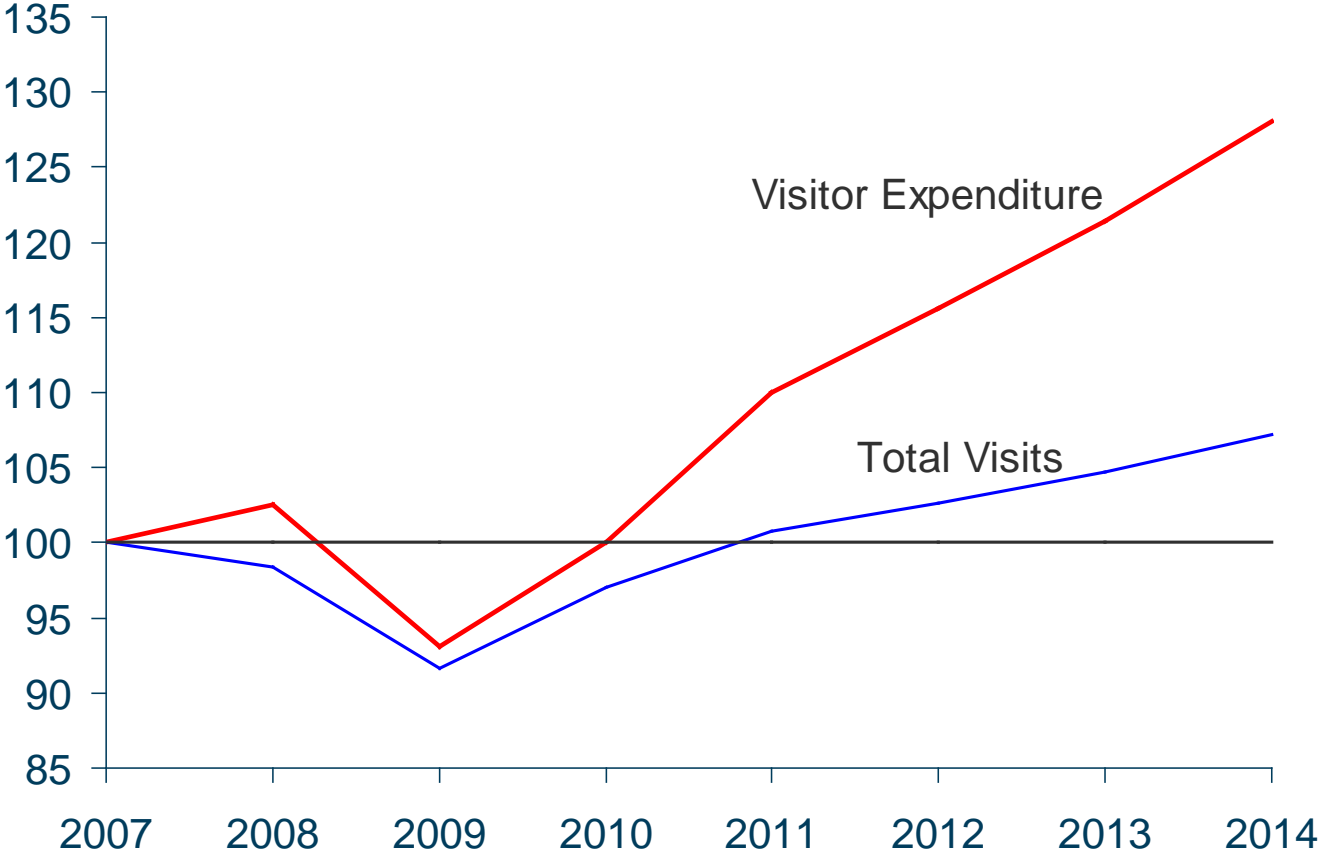
Direct Visitor Expenditures							
(\$ Billions)							
	2009	2010	2011	2012	2013	2014	2015
<b>Total Expenditures</b>	88.5	95.1	104.6	109.9	115.5	121.8	128.0
% change	-9.2%	7.5%	10.0%	5.1%	5.1%	5.4%	5.1%
<b>Domestic</b>	72.7	77.0	84.6	88.3	92.3	97.1	101.7
% change	-8.1%	5.8%	9.9%	4.3%	4.6%	5.1%	4.8%
<b>International</b>	15.8	18.1	20.0	21.7	23.2	24.7	26.3
% change	-13.9%	15.0%	10.4%	8.2%	6.9%	6.6%	6.5%

Source: Tourism Economics. Historical sources: Dean Runyan, CIC Research

# Expenditures recover ahead of visits

## California Visitors vs Visitor Expenditures

Index, 2007 = 100



Source : Tourism Economics

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Macro forecast assumptions / CA travel model drivers

# US & GLOBAL ECONOMIES

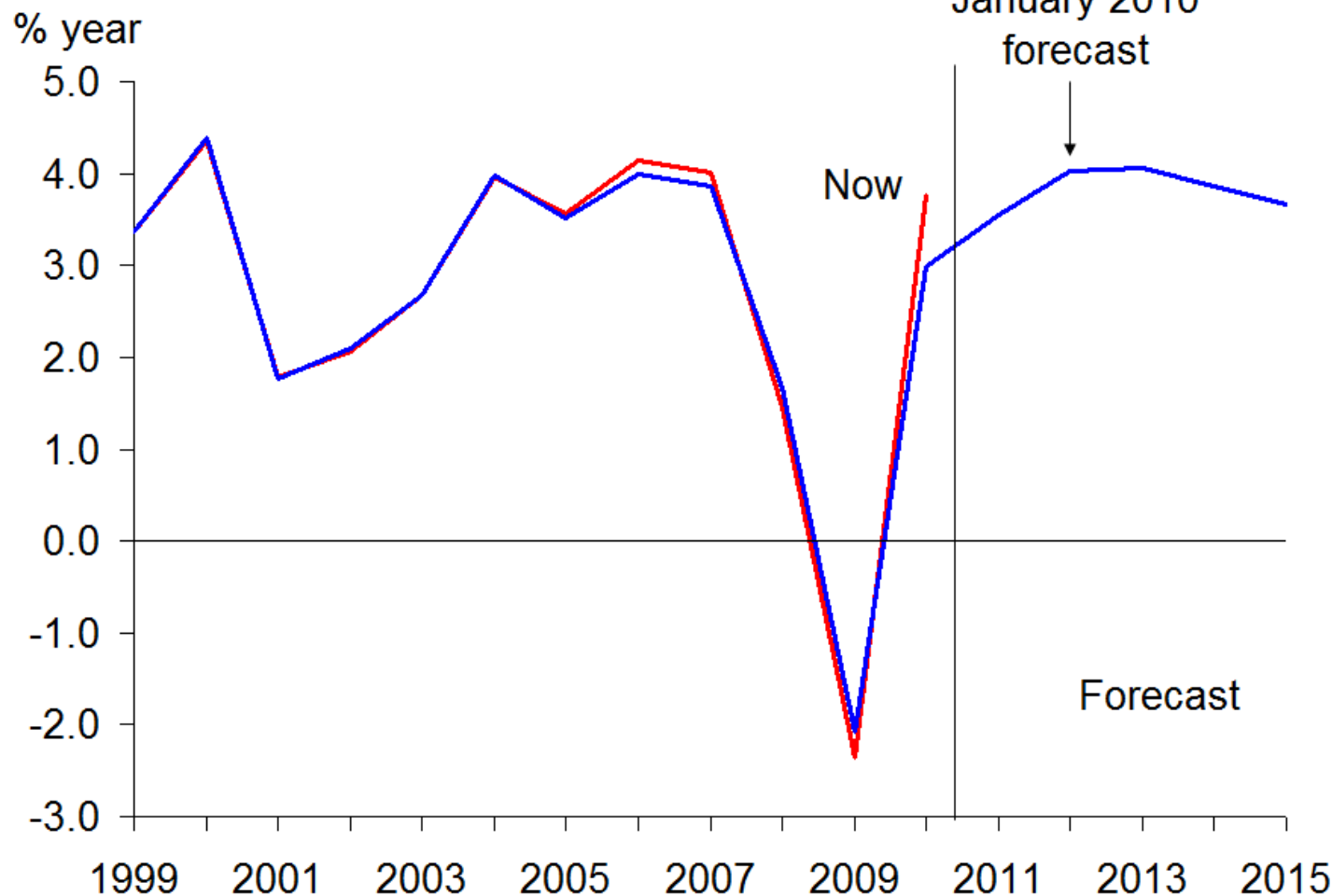
# Key points

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- Globally, growth prospects darken as financial conditions worsen and downside risks dominate.
- The risk of recession is sufficiently high that new stimulus measures are back on the agenda in the major economies.
- Recent US economic reports have been moderately positive, but these have not been robust enough to signal a strong acceleration in the economy.
- The low level of confidence, the loss of wealth due to the stock market declines, and the high degree of uncertainty suggest that the near-term outlook for consumer spending in US remains subdued.

# Global recovery initially stronger than expected...

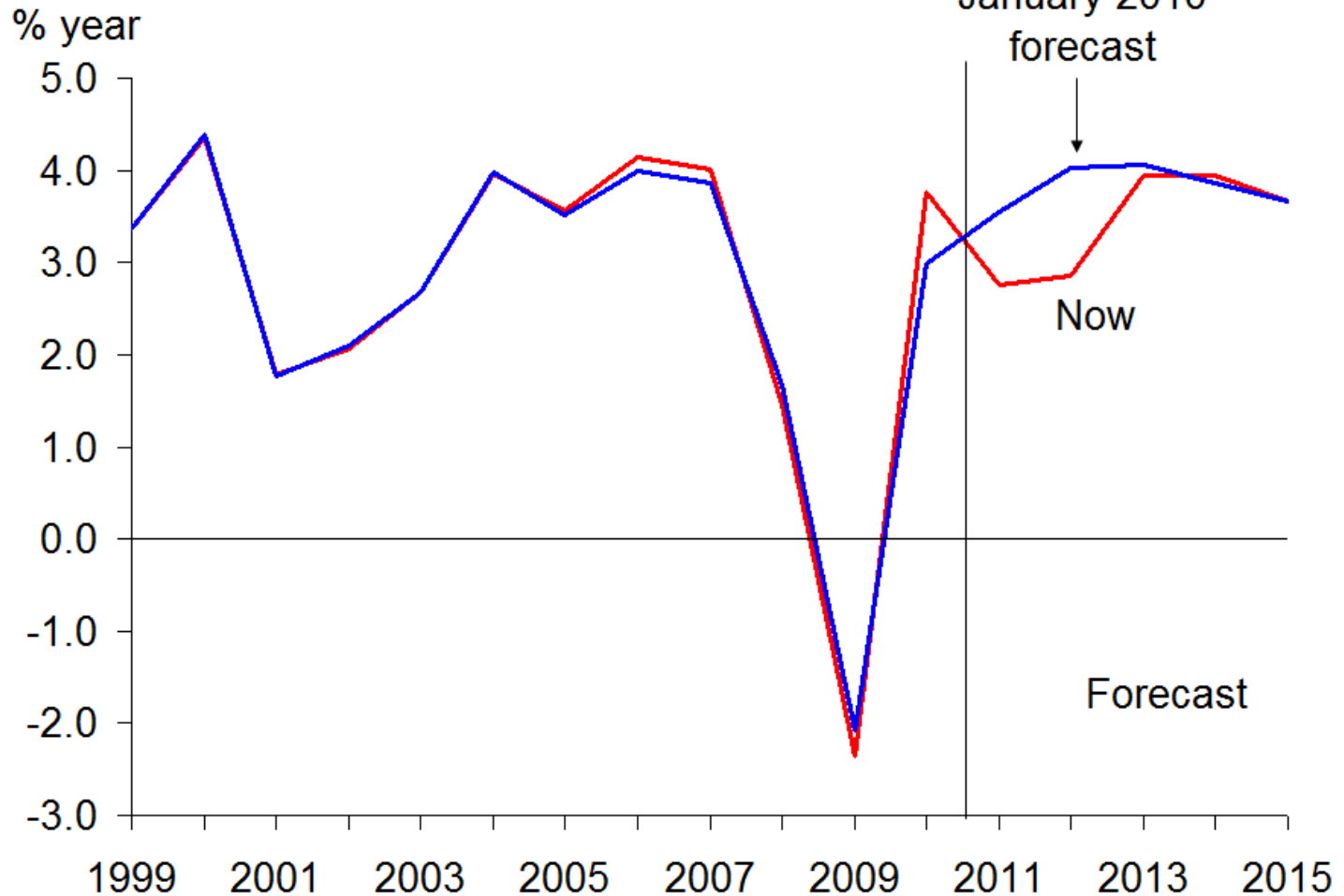
## World: GDP growth



Source : Oxford Economics

# ...but no longer...

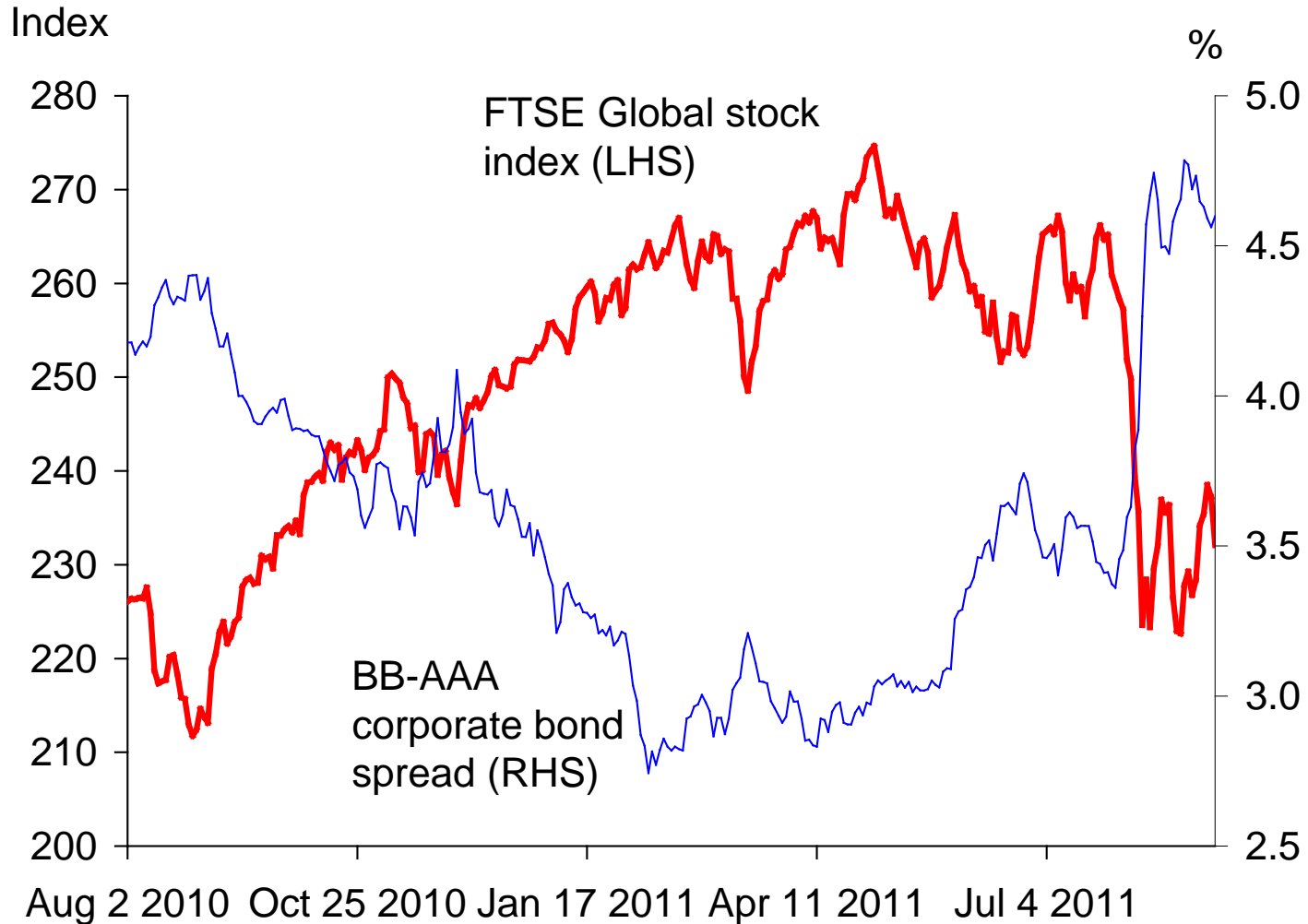
## World: GDP growth



Source : Oxford Economics

# ...financial stress is rising...

## World: Financial conditions

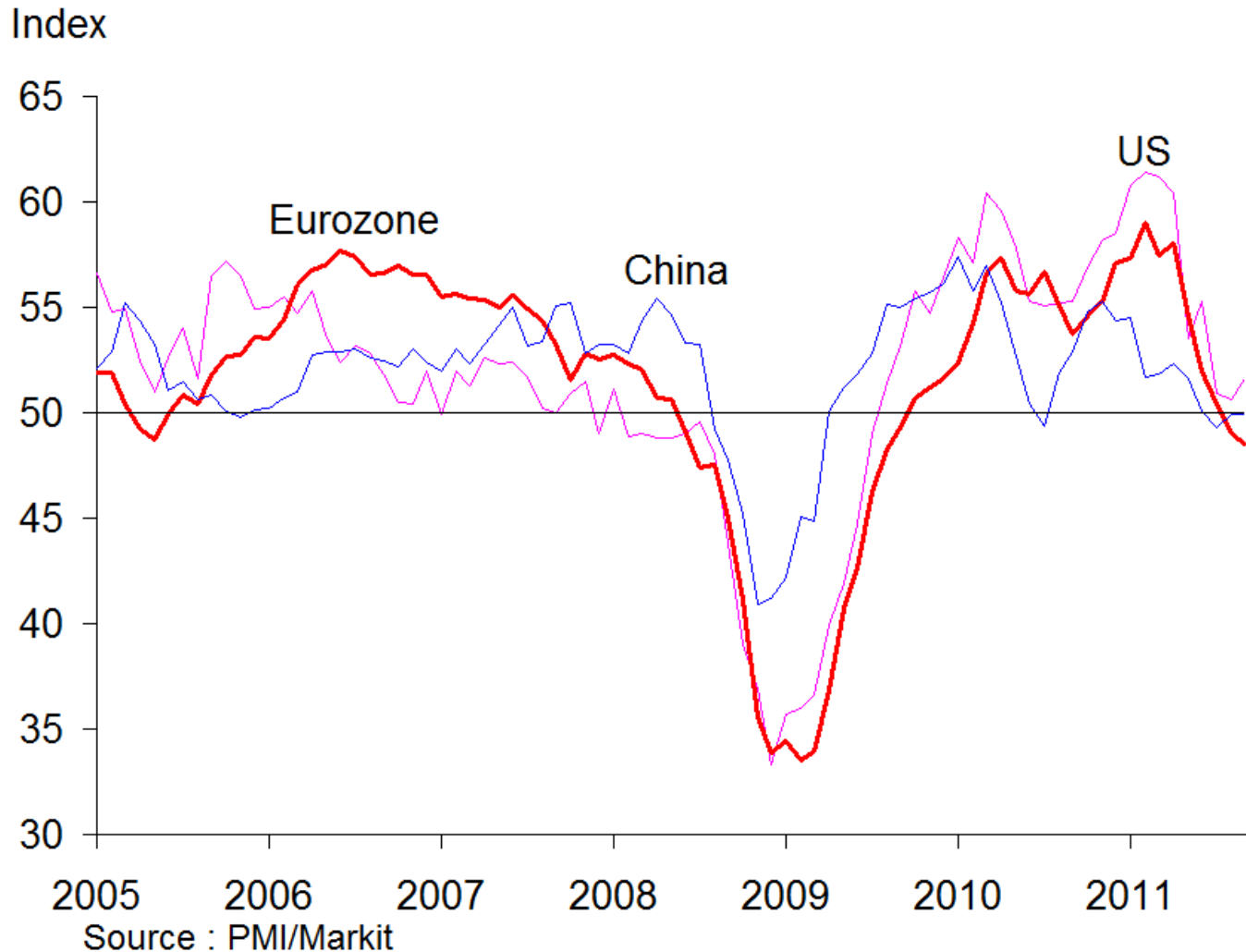


Source : Oxford Economics/Haver Analytics



# ...and business confidence fading fast

## Manufacturing Purchasing Managers' Index



# Not one but three crises!

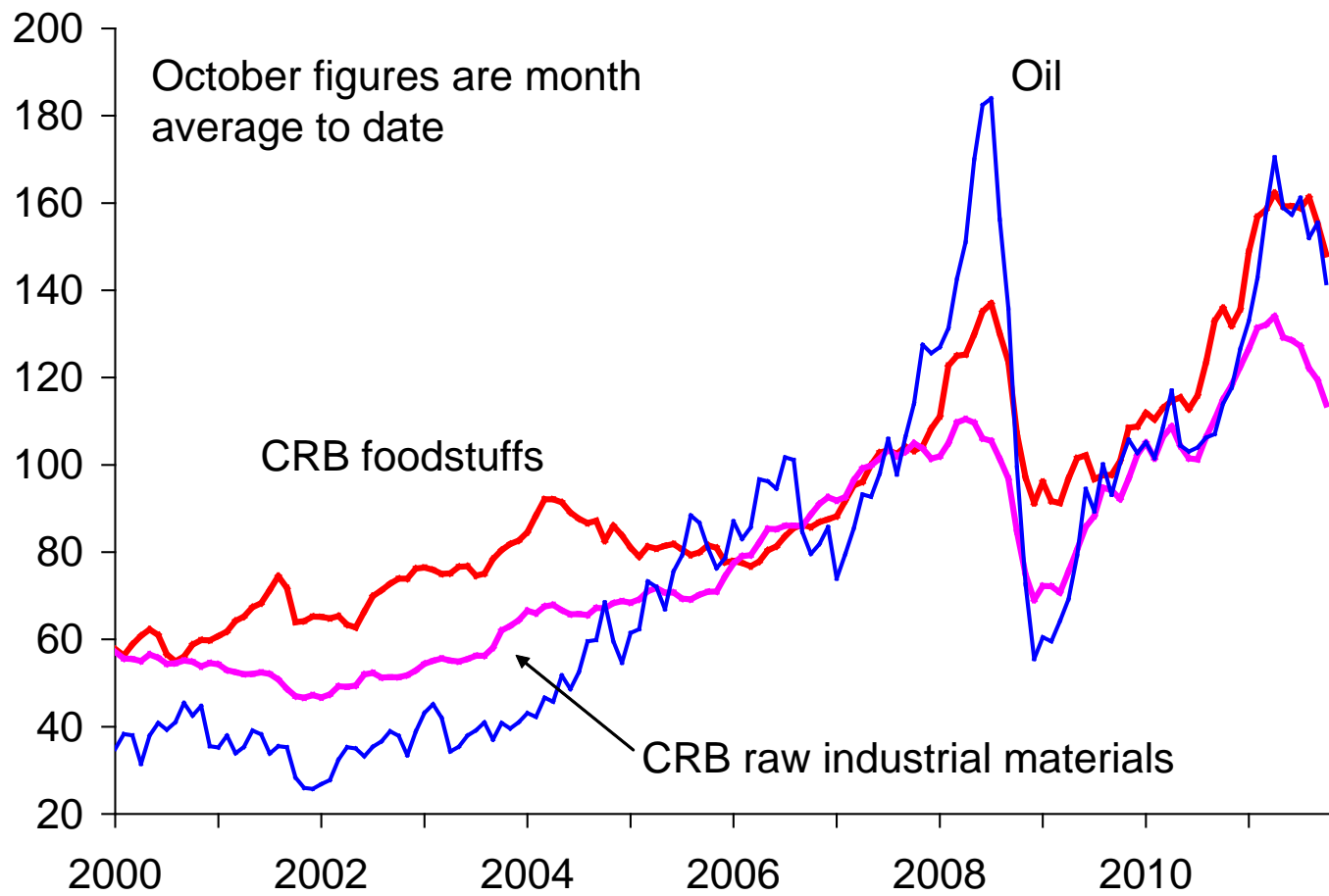
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- A financial crisis in US and Europe
- Eurozone political system not fit for purpose
- Commodity price shocks

# Commodity prices like a tax rise for rich countries

## World: Commodity prices

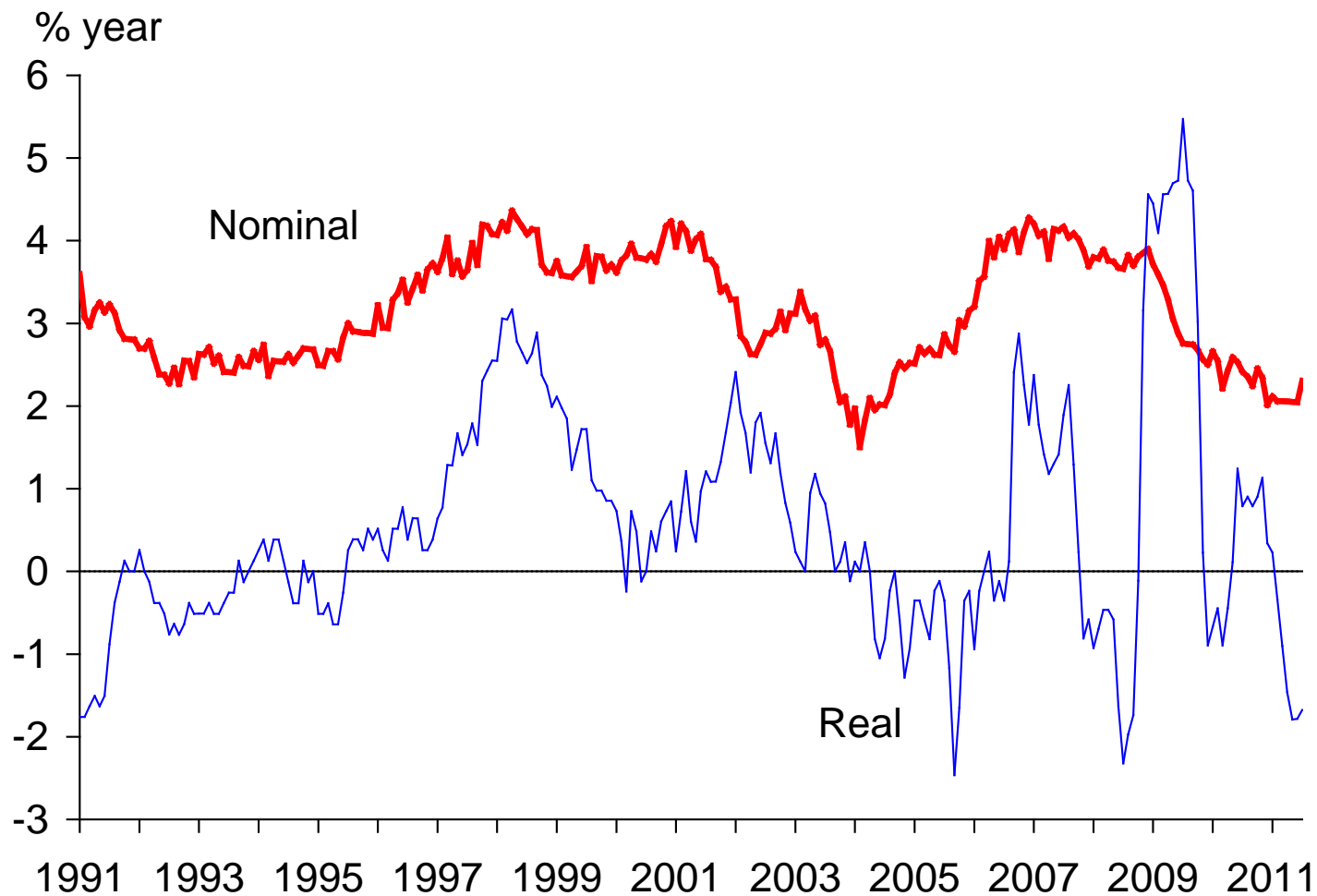
2007=100 (rebased)



Source: Haver Analytics

# Inflation impact squeezing real wages

## US: Hourly earnings growth



Source: Haver Analytics

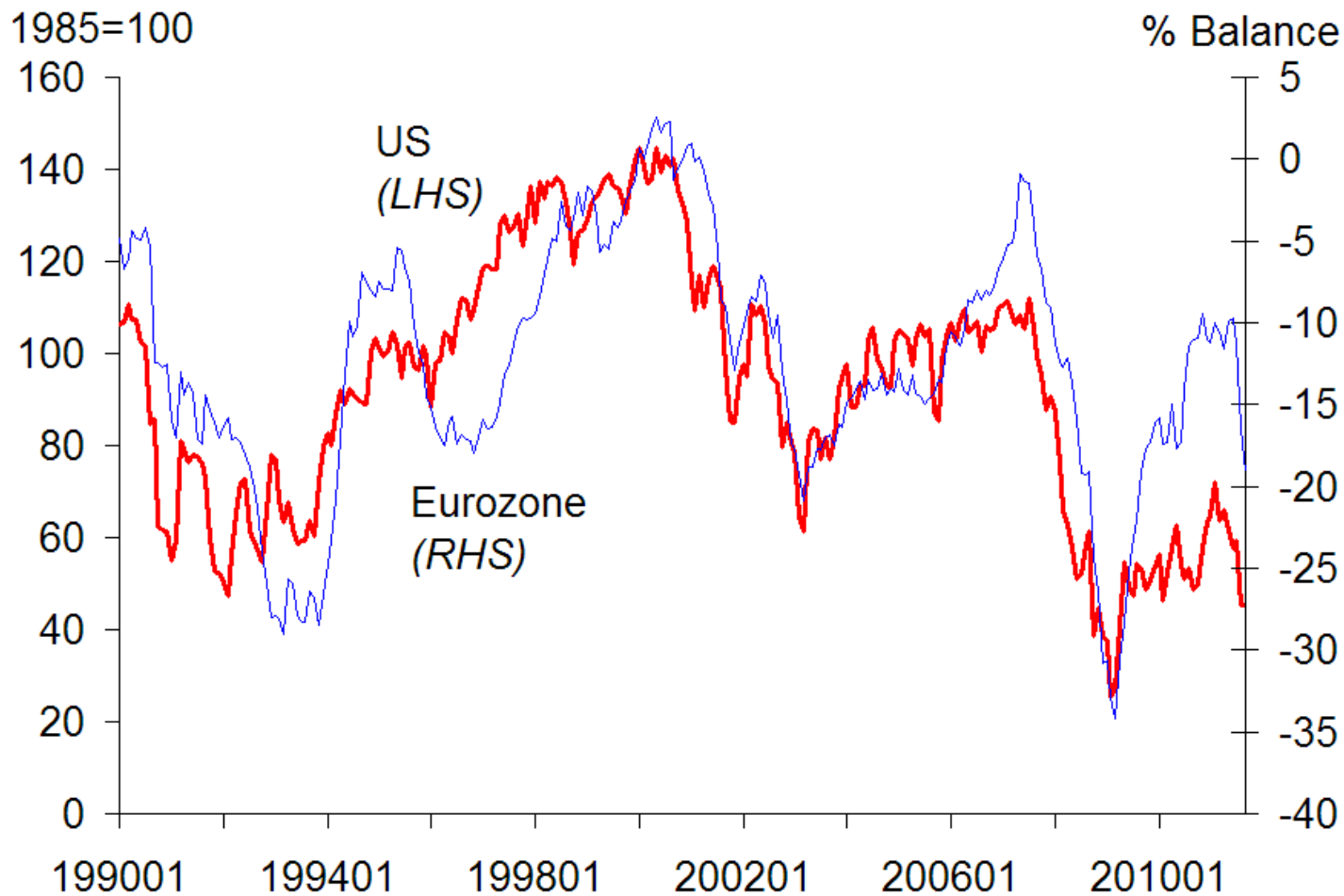
# So why is growth slowing?

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- Some slowdown inevitable after inventory-driven rebound in 2010
- Special factors – eg Japanese earthquake/tsunami
- Policy tightening
- High oil and commodity prices
- Household and corporate caution – now compounded by financial market volatility

# Confidence tumbling

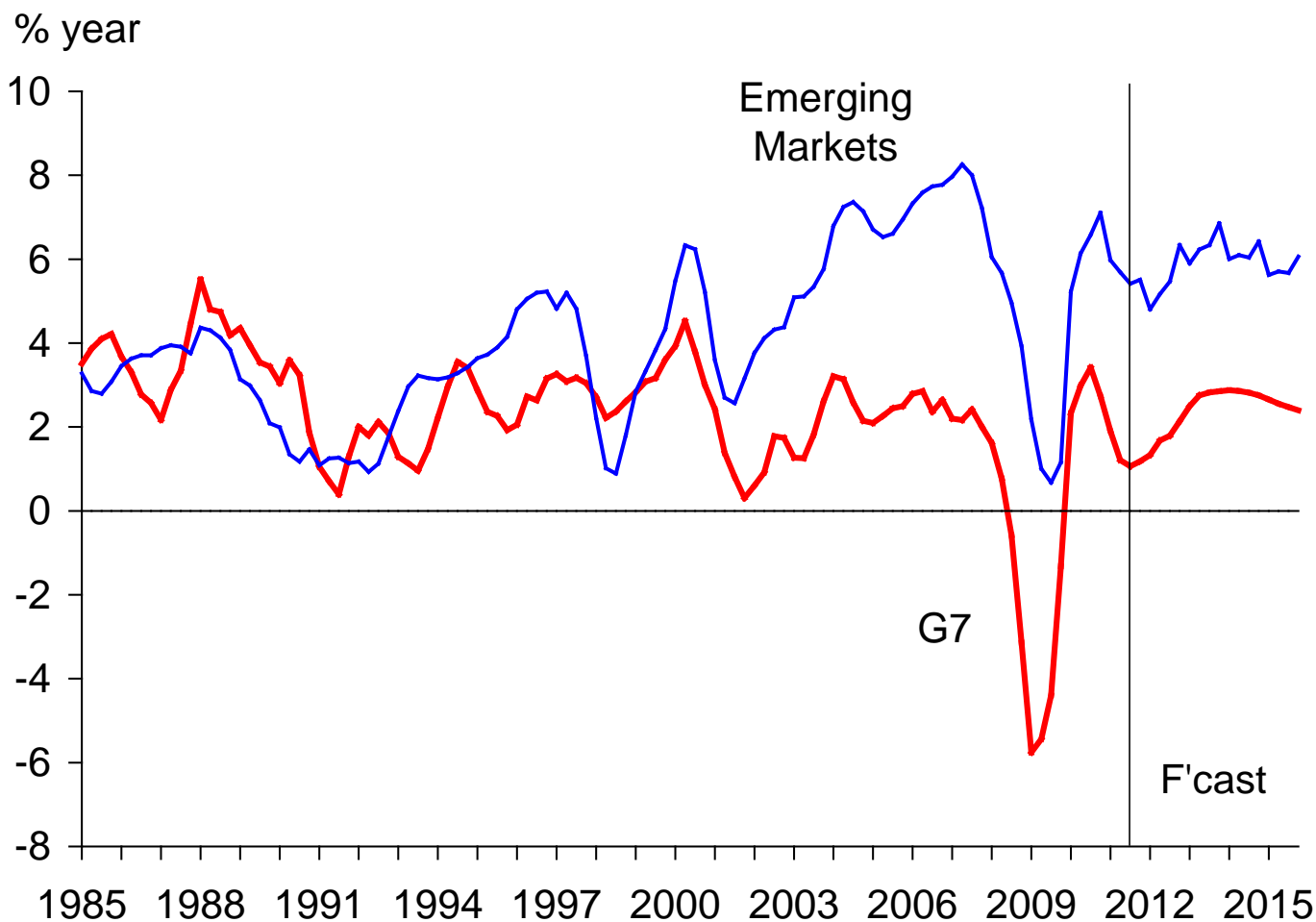
## Consumer confidence: US and Eurozone



Source : Oxford Economics/Haver Analytics

# Central forecast is for world to stabilize...

## G7 & Emerging Markets: GDP growth



Source: Oxford Economics

# ...why?

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- Assume Eurozone governments will manage an orderly resolution of the sovereign debt crisis
- Further 'unconventional' monetary policy loosening in advanced economies
- Stimulus measures in emerging markets
- Improved real income growth for consumers as inflation falls
- Growing middle class in emerging markets



# Downside risks to Oxford Economics' forecast



# Oxford Economics' forecast

<b>World GDP Growth</b>						
<b>% Change on Previous Year</b>						
	2010	2011	2012	2013	2014	2015
US	3.0	1.7	2.1	3.2	3.5	3.1
Japan	4.0	-0.6	2.2	3.0	2.4	1.5
Eurozone	1.7	1.6	0.6	1.8	2.0	2.0
of which:						
Germany	3.6	3.0	1.1	2.0	2.1	2.0
France	1.4	1.6	0.7	1.8	2.0	2.0
Italy	1.2	0.6	0.2	0.9	1.3	1.7
UK	1.4	1.0	1.7	2.8	2.8	2.7
China	10.3	8.8	8.3	9.2	8.8	8.3
India	8.9	7.1	7.7	9.6	9.2	8.3
Other Asia	7.1	5.1	4.9	5.9	6.0	5.7
Mexico	5.4	3.8	4.3	5.1	4.8	4.0
Brazil	7.5	3.6	3.7	5.0	4.3	4.1
Other Latin America	4.3	4.9	3.8	4.5	4.2	3.9
Eastern Europe	0.9	3.7	3.5	4.3	4.4	4.2
MENA	4.9	4.7	4.5	5.4	5.3	4.9
<b>World</b>	<b>3.8</b>	<b>2.8</b>	<b>2.9</b>	<b>3.9</b>	<b>4.0</b>	<b>3.7</b>
<b>World (PPP)</b>	<b>4.5</b>	<b>3.7</b>	<b>3.7</b>	<b>4.7</b>	<b>4.7</b>	<b>4.5</b>

# Oxford Economics' forecast

Alternative GDP growth forecasts					
	2009	2010	2011	2012	2013
<b>Oxford Forecast (45%)</b>					
US	-3.5	3.0	1.7	2.1	3.2
Eurozone	-4.2	1.7	1.6	0.6	1.8
China	9.2	10.3	8.8	8.3	9.2
World 2005 PPP	-1.0	4.5	3.7	3.7	4.7
<b>Eurozone financial contagion (20%)</b>					
US	-3.5	3.0	1.7	0.8	-0.2
Eurozone	-4.2	1.7	1.6	-1.6	-1.6
China	9.2	10.3	8.8	6.3	4.9
World 2005 PPP	-1.0	4.5	3.7	2.1	1.6
<b>US recession (15%)</b>					
US	-3.5	3.0	1.6	0.3	2.7
Eurozone	-4.2	1.7	1.6	0.0	1.3
China	9.2	10.3	8.8	6.9	8.3
World 2005 PPP	-1.0	4.5	3.7	2.8	4.2
<b>China hard landing (10%)</b>					
US	-3.5	3.0	1.6	1.8	2.4
Eurozone	-4.2	1.7	1.6	0.3	1.4
China	9.2	10.3	8.9	6.5	5.9
World 2005 PPP	-1.0	4.5	3.7	3.1	3.7
<b>Corporate reawakening (10%)</b>					
US	-3.5	3.0	1.7	2.9	4.5
Eurozone	-4.2	1.7	1.6	1.1	2.8
China	9.2	10.3	8.8	9.6	10.2
World 2005 PPP	-1.0	4.5	3.7	4.5	5.9



# TOURISM ECONOMICS

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